SaskTel

Financial Statements of

NAVIGATA HOLDING INC.

December 31, 2001

102-05030/

PRICEWATERHOUSECOOPERS

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January 14, 2002

Auditors' Report

**To the Members of the Legislative Assembly,
Province of Saskatchewan**

We have audited the consolidated statement of financial position of **Navigata Holding, Inc.** as at December 31, 2001 and the consolidated statements of operations, deficit and cash flows for the period May 15, 2001 to December 31, 2001. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2001 and the results of its operations and its cash flows for the period from May 15, 2001 to December 31, 2001 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and other members of the worldwide PricewaterhouseCoopers organization.

CONSOLIDATED STATEMENT OF OPERATIONS

For the period May 15 to December 31	2001 (Thousands of dollars)
Operating revenues	$ 17,329
Inter-carrier and other costs of sales	11,395
Gross margin	5,934
Operating expenses	
Operating expenses	6,677
Depreciation and amortization (Note 4 and Note 5)	1,327
	8,004
Loss from operations	(2,070)
Interest expense (Note 6)	437
Interest and other income	(65)
Loss before income taxes	(2,442)
Provision for income taxes (Note 10)	42
Net loss	$ (2,484)

CONSOLIDATED STATEMENT OF DEFICIT

For the period May 15 to December 31	2001 (Thousands of dollars)
Deficit, beginning of period	$ -
Net loss	(2,484)
Deficit, end of period	$ (2,484)

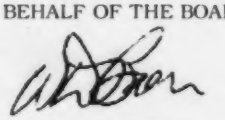
See Accompanying Notes

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31	2001 (Thousands of dollars)
Assets	
Current assets	
Cash	$ 3,727
Accounts receivable	6,515
Inventory	1,131
Prepaid expenses	356
	11,729
Property, plant and equipment (Note 4)	33,086
Customer accounts (Note 5)	348
	$ 45,163
Liabilities and shareholder's equity	
Current liabilities	
Accounts payable and accrued liabilities	$ 8,977
Deferred revenue	4,982
Current portion of capital lease obligations (Note 6)	2,341
	16,300
Capital lease obligations (Note 6)	10,943
Accrued employee benefit liability (Note 7)	404
	27,647
Shareholder's equity	
Share capital (Note 8)	20,000
Deficit	(2,484)
	17,516
	$ 45,163

See Accompanying Notes

ON BEHALF OF THE BOARD



Director

Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period May 15 to December 31	2001 (Thousands of dollars)
Cash provided by (used in):	
Operating activities	
Net loss	$ (2,484)
Items not affecting cash from operations –	
Depreciation and amortization	1,327
Loss on disposal of capital assets	4
	(1,153)
Net change in non-cash working capital items	1,153
	-
Financing activities	
Repayment of obligations under capital leases	(525)
Share capital	20,000
	19,475
Investing activities	
Business acquisition (Note 3)	(16,720)
Cash assumed with business acquisition	2,580
Capital expenditures	(1,250)
Customer accounts	(358)
	(15,748)
Increase in cash during the period and cash, end of period	$ 3,727
Income taxes paid	$ 47
Interest paid	$ 434

See Accompanying Notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 -- The Corporation

Navigata Holding, Inc. (the Corporation) was incorporated on May 15, 2001 under *The Business Corporations Act* (Saskatchewan), for the sole purpose of acquiring a group of companies (the RSL Group) which collectively provides a full range of data and voice telecommunications services and products, including high-speed data networking, internet, long distance and local phone service, to business customers located in British Columbia, Alberta, Ontario and Quebec (see Note 3). The Corporation is a wholly-owned subsidiary of SaskTel Investments Inc. (STII), the ultimate parent corporation of which is Saskatchewan Telecommunications Holding Corporation (Holdco).

The Corporation was originally formed under the name of Langenburg Holding, Inc. Its name was changed to Navigata Holding, Inc. effective February 4, 2002 (see Note 14).

Note 2 -- Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and in conformity with prevailing practices in the Canadian telecommunications industry.

Basis of consolidation

These consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries with all significant intercompany transactions and balances being eliminated. The Corporation's subsidiaries are RSL COM Canada Holdings Inc., RSL COM Canada Inc., TLW Holdings Inc., MK Telecom Network Holdings Inc. and MK Telecom Network Inc.

Inventory

Inventory is recorded at the lower of cost and net realizable value. Cost is determined using an average-cost basis.

Property, plant and equipment

Property, plant and equipment is recorded at cost including materials, services and direct labour.

Depreciation of property, plant and equipment is provided for using the straight-line method at composite rates estimated to reduce the cost of capital assets to estimated salvage values over the average service lives of the assets. Estimated service lives range from seven to thirty-three years. Property, plant and equipment is written down to its net recoverable amount when such amount is less than its net carrying amount.

With respect to property, plant and equipment acquired, constructed or developed over time, the Corporation follows the policy of capitalizing related equipment, construction, development and installation costs as capital work-in-progress. These costs are then depreciated on a basis consistent with the Corporation's capital asset depreciation policy from the date the asset is substantially completed and put into productive use.

Intangible assets

Assets other than goodwill, referred to generally as "intangible assets", are recorded at cost of acquisition or development, including direct development costs, overhead costs directly attributable to development activity and betterment costs. Intangible assets with a finite useful life are amortized using the straight-line method at rates that will reduce the cost to any estimated residual value over the estimated useful life, and are written down to their net recoverable amount when such amount is less than their net carrying amount. Intangible

assets with an indefinite useful life are not amortized until their life is determined to no longer be indefinite, and are written down to their fair value when such value is less than their carrying amount.

Employee benefit plans
The Corporation has certain defined benefit plans providing pension and other future benefits to employees. The Corporation accrues its obligations under these defined benefit plans and the related costs, net of plan assets. The cost of benefits is actuarially determined using the accrued benefit method prorated on service and management's best estimates of actuarial assumptions. The discount rate used to determine the accrued benefit obligation is determined by reference to market interest rates at the measurement date on high-quality debt instruments with cash flows that match the timing and the amount of expected benefit payments. The fair value of plan assets is used to calculate the expected return on plan assets and any actuarial gains or losses thereon. The excess of the net actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service life of active employees.

Revenue
Substantially all of the Corporation's revenues are derived from the provision of data and voice telecommunications services and products delivered by its operating subsidiaries. Revenues from services are recognized based on either customer usage as measured by the Corporation's switches or by contractual agreement when provided, and from products when such products are delivered and accepted by customers.

Income taxes
The Corporation follows the asset and liability method of tax allocation accounting whereby future tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantial enactment. The amount of future income tax assets recognized is limited to the amount that is estimated as more likely than not to be realized.

Use of estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 -- Business acquisition

Effective August 30, 2001, the Corporation acquired a 100% interest in the RSL Group, which collectively provides a full range of data and voice telecommunications services and products, including high-speed data networking, internet, long distance and local phone service, to business customers located in British Columbia, Alberta, Ontario and Quebec (see Note 1). The acquisition has been accounted for under the purchase method and the results of operations from the RSL Group have been included in the financial statements of the Corporation from August 30, 2001. The total consideration paid by the Corporation to acquire the RSL Group was $16,720,000. The fair value of the identifiable assets and liabilities acquired was $44,685,000 and $27,965,000 respectively.

Note 4 -- Property, plant and equipment

	2001 (Thousands of dollars)
Furniture and office equipment	$ 1,483
Plant and general equipment	7,083
Telecommunication equipment	24,563
Capital work-in-progress	1,274
	34,403
Less accumulated depreciation	1,317
	$ 33,086

Depreciation of property, plant and equipment during the period totalled $1,317,565. Property, plant and equipment includes assets under capital leases of $10,542,428 and accumulated depreciation of $413,693.

Note 5 -- Customer accounts

	2001 (Thousands of dollars)
Customer accounts	$ 358
Less accumulated amortization	10
	$ 348

The cost of customer accounts is being amortized over their estimated useful life of 3 years. Amortization of this intangible asset during the period totalled $9,939.

Note 6 -- Capital lease obligations

The capital lease obligations recorded in these consolidated financial statements reflect the present value of future minimum payments under these leases, discounted at the interest rates implicit in the leases. The interest rates implicit in these leases primarily range between 6.9% and 9.5%, with a weighted average of 8.1%. The lease agreements expire variously between 2002 and 2006. During the period, the Corporation acquired property, plant and equipment under capital leases at a cost of $80,084.

Future minimum payments under these leases in aggregate and the portion of such aggregate amount representing implied interest are as follows:

	(Thousands of dollars)
2002	$ 3,586
2003	3,697
2004	3,659
2005	3,711
2006	2,544
Aggregate future minimum lease payments	17,197
Portion representing implied interest	3,913
Capital lease obligations	$ 13,284
Current portion	$ 2,341
Long term portion	10,943
	$ 13,284

Interest expense on capital lease obligations during the period totalled $435,048.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 -- Employee benefit plans

Information about the Corporation's employee benefit plans as at and for the period ended December 31, 2001, in aggregate, is as follows:

	Pension Benefit Plans	Other Future Benefit Plan
	(Thousands of dollars)	
Accrued benefit obligation	$ 9,312	$ 1,385
Plan assets at fair value	8,305	-
Plan deficit	$ 1,007	$ 1,385
Accrued employee benefit liability	$ 75	$ 329
Employee benefit expense	$ 207	$ 3
Employee contributions	$ 187	$ -
Employer contributions	$ 200	$ 3
Benefits paid	$ 95	$ 3

The significant actuarial assumptions used to determine the amounts under the employee benefit plans are as follows:

	Pension Benefit Plans	Other Future Benefit Plan
Discount rate	6.75%	6.75%
Expected long-term rate of return on plan assets	7.00%	Not relevant
Rate of compensation increase	4% plus merit increases	Not relevant

For measurement purposes, 10.0% and 9.5% annual rates of increase in the per capita cost of covered health care benefits were assumed for 2001 and 2002 respectively, decreasing by 0.5% each subsequent year to 5.0% in 2011 and remaining at that level thereafter.

Periodic reviews of plan assumptions occur to determine whether the assumptions remain valid. Experiential factors may cause changes to these actuarial assumptions, which may result in an increase in the accrued benefit obligation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 -- Share capital

Authorized: Unlimited Class A Common Shares without par value

Issued: Class A Common Shares

	Number of shares	Amount
Balance - December 31, 2001	2,000,000	$ 20,000,000

During the period, a total of 2,000,000 Class A Common Shares were issued to STII at a price of $10 per share, for total proceeds of $20,000,000.

Note 9 -- Incentive stock option plan

The management of RSL COM Canada Inc. (subsequently amalgamated into Navigata Communications Inc. - see Note 14) are entitled to benefits under a stock option plan. Options under the plan will be granted to management based on established performance measurements. As at December 31, 2001, a total of 500,000 Class A Common shares have been reserved but no options have been granted under this plan.

Note 10 -- Income taxes

Neither the Corporation's immediate parent STII, nor its ultimate parent Holdco, is subject to Federal or Provincial income taxes in Canada, as Holdco is a Saskatchewan Provincial Crown corporation. The Corporation, however, is subject to Federal and Provincial income taxes in Canada, as a consequence of the Corporation's incentive stock option plan (see Note 9).

The Corporation has available non-capital losses for income tax purposes of approximately $48,264,000, which are available to be carried forward to reduce taxable income in future years, and expire as follows:

	(Thousands of dollars)
2003	$ 337
2004	34
2005	449
2006	9,778
2007	36,988
2008	678
	$ 48,264

Net temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases deductible against taxable income of future years, including non-capital losses, total approximately $56,808,000. The future income tax benefit which may arise as a result of these net temporary differences has not been recognized in these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 -- Financial instruments

Credit risk
The Corporation has a sufficiently diversified customer base that it is not subject to any significant concentration of credit risk.

Currency exposure
The Corporation has no significant exposure to foreign currency fluctuations.

Fair value
The carrying values of cash, accounts receivable, accounts payable and accrued liabilities and capital lease obligations reflected in the consolidated statement of financial position approximate their respective fair values.

Note 12 -- Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Included in deferred revenues at December 31, 2001 is $3,600,000 pertaining to transactions with related parties.

Note 13 -- Commitments

The Corporation has entered into various agreements providing it with a long-term supply of telecommunication network facilities, and also leases certain office premises and equipment under operating leases. The future minimum payments under these agreements and leases in each of the next five years are as follows:

	(Thousands of dollars)
2002	$ 8,321
2003	6,169
2004	4,592
2005	3,912
2006	2,285

Note 14 -- Subsequent Events

On January 1, 2002, the Corporation amalgamated under the *Canada Business Corporations Act* all of its subsidiaries into a wholly-owned subsidiary named Navigata Communications Inc. The Corporation has commenced the process of re-branding the operating name of its subsidiary group from RSL COM Canada to Navigata Communications. This amalgamation will have no effect on the consolidated financial statements of the Corporation.

On February 4, 2002, the Corporation changed its name to Navigata Holding, Inc.